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SOAH DOCKET NO. 473-21-0538

PUC DOCKET NO. 51415

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF

SOUTHWESTERN ELECTRIC POWER COMPANY

FOR AUTHORITY TO CHANGE RATES

REBUTTAL TESTIMONY OF

PAUL M. EIDEN

FOR

SOUTHWESTERN ELECTRIC POWER COMPANY

APRIL 23, 2021

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TESTIMONY INDEX

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.

A. My name is Paul. M. Eiden, and my business address is 55 East Monroe Street, Chicago, Illinois 60603. I am an Officer, Vice President, and Project Director with Sargent & Lundy LLC (S&L).

Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE?

A. Yes.

II. PURPOSE OF REBUTTAL TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to address the testimony of Mr. David Garrett, submitted on behalf of the Cities Advocating Reasonable Deregulation (CARD), as it relates to his recommendation to disallow the contingency factor costs included in the Company's plant demolition cost studies.

III. DEMOLITION COST ESTIMATES – USE OF A CONTINGENCY FACTOR

Q. ON PAGE 7, LINES 24-25 OF HIS DIRECT TESTIMONY, MR. GARRETT ASSERTS THAT THE COMPANY'S PLANT DEMOLITION COST ESTIMATES INCLUDE ARBITRARY AND UNSUPPORTED CONTINGENCY FACTORS. DO YOU AGREE?

A. No, I do not. The Company used a contingency factor of 10% to calculate plant demolition costs in this case. The 10% contingency factor is consistent with Commission precedent established in the Company's last base case (Docket No.

46449). The Commission's Order on Rehearing in Docket No. 46449 provides the following in Finding of Fact No. 177: "[*t*]*he plant demolition studies SWEPCO used to develop terminal removal cost and salvage for each of SWEPCO's generating facilities, when adjusted to account for a 10% contingency factor, are reasonable.*"[1] In Finding of Fact No. 179, the Commission further found that "[*i*]*t is common practice to include contingency amounts in cost estimates for contract work across all industries.*"[2]

Q. DID MR. GARRETT MAKE THE SAME OR SIMILAR ARGUMENTS IN DOCKET NO. 46449 THAT HE MAKES IN THIS CASE REGARDING THE CONTINGENCY FACTOR?

A. Yes, he did.[3]

Q. IN DOCKET NO. 46449, DID THE ADMINISTRATIVE LAW JUDGES (ALJ) OR THE COMMISSION AGREE WITH MR. GARRETT'S ARGUMENT THAT USE OF A CONTINGENCY FACTOR IN ESTIMATING PLANT DEMOLITION STUDY COSTS IS INAPPROPRIATE?

A. No. In the Company's last base case, both the ALJs and the Commission rejected Mr. Garrett's argument against including a contingency factor in demolition studies' cost estimates. In fact, the ALJs noted that these same arguments were raised and decided in SWEPCO's prior rate case, Docket No. 40443, and were rejected by the Commission

[1] PUC Docket No. 46449, SOAH Docket No. 473-17-1764, Order on Rehearing, Finding of Fact No. 177, page 33 of 59.
[2] Id. at Finding of Fact No. 179, page 33 of 59.
[3] PUC Docket No. 46449, SOAH Docket No. 473-17-1764, CARD Ex. 1 (D. Garrett Direct) at 12; see also Proposal for Decision, page 210.

at that time.[4] The Commission found that "[*T*]*he plant demolition studies SWEPCO used to develop terminal removal cost salvage for each of SWEPCO's generating facilities are reasonable. These studies were prepared by an experienced consulting engineering firm and incorporate reasonable methodology, data, assumptions, and engineering judgment.*"[5]

Q. WERE THE PLANT DEMOLITION STUDIES SUBMITTED IN THIS BASE CASE PREPARED USING THE SAME METHODOLOGY USED IN DOCKET NOS. 40443 AND 46449?

A. Yes. With the exception of changing the contingency factor from 15% to 10%, to reflect direction provided to the Company by the Commission in Docket No. 46449, Finding of Fact No. 177, the plant demolition studies were prepared using the same methods applied in Docket Nos. 40443 and 46449.

Q. PLEASE EXPLAIN WHY IT IS APPROPRIATE TO USE A CONTINGENCY FACTOR WHEN PREPARING DEMOLITION COST ESTIMATES.

A. There are numerous reasons why it is appropriate to include contingency factors in demolition cost estimates. First, as acknowledged by the Commission in the Company's last base case, it is common practice to include contingency factors in demolition cost estimates.[6] Second, again acknowledged by the Commission in the Company's last base case, it is reasonable to include contingency factors in demolition

[4] PUC Docket No. 46449, SOAH Docket No. 473-17-1764, Proposal for Decision, page 219.
[5] PUC Docket No. 40443, SOAH Docket No. 473-17-1764, Proposal for Decision at 183, 185, adopted by Order on Rehearing, Finding of Fact No. 193.
[6] PUC Docket No. 46449, SOAH Docket No. 473-17-1764, Order on Rehearing, Finding of Fact No. 179, page 33 of 59.

cost estimates.[7] Third, the use of contingency factors in demolition cost estimates more accurately reflect the realities of power plant operating lives. Power plants are in a continuous state of change in configuration over their operating lives. Improvements in technology, changes in plant operating approach, and the degradation of plant equipment ensure that power plant configurations evolve over the life of the facility. A demolition study, however, must be performed at a given point in time at which it is not possible to anticipate with precision all the ways a plant will be modified over time as a result of this dynamic.

Since we know that future plant configurations change over time, positive contingencies in demolition cost estimates are necessary to account for the increases in plant facilities that will occur between the time that the cost estimates are developed and the end of life of the facility. In addition, experience informs us that unknown challenges will occur during demolition that cannot be exactly predicted, given the unique detailed features inherent in every electric generating unit. Again, the use of contingency factors to estimate demolition costs is a common industry standard practice.

Q. DOES YOUR EXPERIENCE CONFIRM THAT THE INCLUSION OF POSITIVE CONTINGENCY FACTORS IN COST ESTIMATES IS NECESSARY AND APPROPRIATE?

A. Yes. I have been working for S&L performing engineering tasks both nationally and internationally for over 30 years. Every single new generation power plant design

[7] Id. at Finding of Fact Nos. 177, 178, and 180, page 33 of 59.

project and a vast majority of power plant retrofit projects that have been performed by S&L throughout its 130-year history have involved some type of site grading and/or demolition. This is true whether the assignment is related to the full decommissioning and demolition of a facility or a partial demolition to accommodate the development of new facilities and/or the retrofit of existing facilities.

Working with our clients we establish the scope of this work, along with engineering and design details and specifications. Additionally, S&L establishes the cost estimates used in the budgeting process. S&L works with its clients to contract this work and then typically provides surveillance support in the field during its execution. I have examined cost estimates that were prepared by S&L for other clients during my 31 years at S&L. I have also provided independent review of demolition and site grading cost estimates prepared by other firms in the industry and can confirm that including a positive contingency to capture future changes is a common industry standard practice.

The extent of this positive contingency varies, depending on the nature and level of detail of the cost estimate. For example, a high level conceptual cost estimate with limited scope definition would have a relatively large contingency. A much more detailed cost estimate that includes actual budgetary input or detailed bids from vendors and contractors would have a lower contingency, because the scope of work is more clearly defined; however, even estimates with the highest level of detail cannot perfectly predict the scope changes and challenges a project may experience as it is executed. For this reason, lowering the contingency factor below 10% is not

reasonable. What is important to note is that including some level of positive contingency in an estimate is a necessary common practice.

Q. HOW WOULD YOU CATEGORIZE THE DEMOLITION STUDY COST ESTIMATES THAT S&L PREPARED FOR SWEPCO?

A. I categorize the demolition cost estimates that S&L developed for SWEPCO as conservative and necessary. The estimates are conservative, because they include a 10% contingency factor, as instructed by the Company to reflect the Commission's direction provided in its last base case,[8] instead of the 15% contingency factor recommended by S & L. They are necessary to account for the unpredictable challenges that will occur during demolition and unknown changes in plant configurations between now and the time of their end of useful life.

Some input to SWEPCO's plant demolition studies is based on past vendor and contractor bids from other S&L projects. Although, S&L did not receive any direct bids for SWEPCO plant-specific demolition, we know based on past experience and industry practice that it is prudent to include a contingency percentage. Based on the level of detail known about the scope of demolition for these plants, including the potential for these plants to have changes in configuration between now and the end of their useful life, and S&L's estimating experience gained from the execution of demolition activities on past projects, use of a positive contingency is warranted and reasonable. As I previously mentioned, the SWEPCO plant demolition cost estimates

[8] PUC Docket No. 46449, SOAH Docket No. 473-17-1764, Order on Rehearing, Finding of Fact No. 177, page 33 of 59.

include a 10% contingency factor, which complies with direction provided by the Commission.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.